

SECTION 8

ASSET MANAGEMENT POLICY



NALEDI LOCAL MUNICIPALITY

Council resolves to adopt the following proposal as the Asset Management Policy of the Naledi Local Municipality

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1. INTRODUCTION

The purpose of the policy is to manage the assets of the municipality in an efficient and effective way with regard to the acquisition, disposal, utilisation, control, safeguarding and maintenance of assets. Furthermore the purpose is to ensure proper accounting treatment in accordance with legislative requirements.

A fixed asset shall in terms of this policy mean any asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or to use in service delivery, over a period extending beyond one financial year.

This policy is prepared in compliance with the following relevant legislative requirements:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act No 32 of 2000
- The Municipal Supply Chain Management Regulations of 2005
- Municipal Finance Management Act No 56 of 2003
- National Treasury guidelines
- Standards of Generally Recognised Accounting Practice (GRAP).

2. BACKGROUND

2.1. The objectives of an asset management policy are:

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's assets.
- To ensure staff is aware of their responsibilities in regards of assets.
- To set out the standards of physical management, recording and internal controls to ensure assets are safeguarded.
- To specify the process required before expenditure on assets occurs.

2.2. The utilization and management of municipal assets (Fixed and Movable) is the prime mechanism by which a municipality can fulfil its constitutional mandates for:

- Delivery of sustainable services,
- Social and economic development,
- Promoting safe and healthy environments and,
- Providing the basic needs to the community.

2.3. As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in the council's fixed property, machinery and equipment.

2.4. The asset management policy deals with the rules required to ensure the enforcement of appropriate safeguarding of the municipal assets.

2.5. Safeguarding in the following ways:

- Financial administration by the Chief Financial Officer, and
- Physical administration by the asset managers.

- And general safeguarding by staff in various departments of the municipality i.e. the users of the particular assets.
- 2.6. Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.

2.7. Accounting standards have been promulgated by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these new accounting standards include:

- The compilation of asset registers covering all property, plant and equipment controlled by the municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.
- The standards to which these financial records must be maintained.

3. DEFINITIONS

Accounting Standards Board means the board established in terms of section 87 of the Public Finance Management Act (PFMA). The section refers to the function of the board, which is to establish standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa. (PFMA section 1)

An active market is a market in which all the following conditions exist:

- (a) the items traded within the market are homogeneous;
- (b) willing buyers and sellers can normally be found at any time; and
- (c) Prices are available to the public. (GRAP 102.09)

Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Agricultural produce is the harvested product of the entity's biological assets.

Asset Class is the categories in which assets are divided (class/sub-class):

Asset Life-Cycle is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal.

Asset Manager is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the entity's standards, policies, procedures and relevant guidelines.

Asset Register is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements. The asset register should also facilitate proper financial reporting and is ultimately the responsibility of the Chief Financial Officer (CFO).

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1.06)

Biological asset is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in biological asset.

Capital Assets are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. (GRAP 17.10)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of Generally Recognised Accounting Practices (GRAP). (GRAP 17.10)

Depreciable Amount is the cost of an asset, or other amount substituted for cost, less its residual value. (GRAP 17.10)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. (GRAP 17.10)

Economic Life is either:

- (a) the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
- (b) The number of production or similar units expected to be obtained from the asset by one or more users. (GRAP 13.05)

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (GRAP 17.10)

Generally Recognised Accounting Practice (GRAP) means an accounting practice complying in material respects with standards issued by the Accounting Standards Board. (PFMA section 1)

A Group of biological assets is an aggregation of similar living animals or plants.

Infrastructure means assets that usually display some or all of the following characteristics:

- (a) they are part of a system or network;
- (b) they are specialised in nature and do not have alternative uses;
- (c) they are immovable; and
- (d) they may be subject to constraints on disposal.(GRAP 17.15)

Investment Property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes, or
- (b) Sale in the ordinary course of operations. (GRAP 16.05)

Maintenance/Refurbishment to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

Property, Plant and Equipment is tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) Are expected to be used during more than one reporting period. (GRAP 17.10)

Recognition is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:

- (a) It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
- (b) The item has a cost or value that can be measured reliably. (Framework for the Preparation and Presentation of Financial Statements paragraph 109 and 110)

Recoverable Amount is the higher of a cash-generating asset's or units net selling price and its value in use.

Remaining Useful Life is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.

The Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (GRAP 17.10)

Useful Life is:

The period over which an asset is expected to be available for use by an entity, or

The number of production or similar units expected to be obtained from the asset by an entity. (GRAP 17.10)

The useful life of an asset is entity specific.

4. ROLES AND RESPONSIBILITIES

4.1. Accounting officer

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

The municipal manager or his duly delegated representative is responsible to:

- Ensure in terms of section 63 of the Municipal Finance Management Act (MFMA) that:
 - The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality.
 - That the municipality's assets are valued in accordance with the standards of generally recognised accounting practice. Ensure that the municipality maintains a system of internal control of assets, including an asset register
 - The implementation of the approved Asset Management Policy
- Verify assets in possession of the Council annually, during the course of the financial year.
- Keep a complete and balanced record of all assets in possession of the Council.
- Report in writing all asset losses, where applicable, to Council

Delegations

- The AO may delegate to a member of the municipality's top management (Chief Financial Officer; senior managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:
 - Any powers or duties assigned to an AO in terms of the Act, or
 - Any powers or duties reasonably necessary to assist the AO in complying with a duty which requires the AO to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act

4.2. Chief financial officer (CFO)

- The chief financial officer shall be the custodian of the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.
- The chief financial officer should appoint an asset manager who will be responsible to manage the amendments, deletions or additions to the fixed asset register.
- The Chief financial officer should authorise the monthly reconciliation prepared by the asset management office and reviewed by the asset manager
- No amendments may be made to the fixed asset register, other than by the CFO or by an official acting under written instruction of the CFO.

4.3. Asset manager

- Under written instruction from the CFO, the asset manager is responsible for the amendments, deletions or additions made to the fixed asset register and to monitor the activities performed by the asset management office.
- Asset manager should review the monthly reconciliation prepared between the asset register and the system and submit it to the CFO for authorisation

4.4. Asset management office

- The asset management office is responsible to prepare monthly reconciliations between the asset register and the system and submit it to the asset manager for review;
- Distribute new assets to the requestor Directorate and bar-code these assets;
- The asset management office should record the details of the new asset in the capital asset register.
- Maintain and control stock of bar-code and replenish where necessary;
- When assets are disposed of or written-off, the asset management office should retire the asset from the asset register;
- Update the asset register when assets are transferred between locations;
- Calculate and update the asset register with the monthly depreciation;
- Prepare and conduct physical assets verification – at least once a year;
- Provide inventory lists for all locations and should be kept behind all doors, in case of offices and at other suitable places;
- Maintain and update the Asset Module and system
- Reconcile on a quarterly basis the reports received from the directorates of all the assets in the directorate and the conditions thereof with the capital asset register.

4.5. Each directorate (section)

- Each directorate (section) is responsible to manage and control all fixed assets in their section in line with the inventory list produced by the Asset management office;
- Any unmarked assets and changes should be communicated to the Asset Management Office;
- To report damaged, lost or asset which require maintenance to the Asset Management Office.
- Report to the Asset Management Office on a quarterly basis on all assets in the directorate (section) as well as the condition of these assets to enable them to identify unrecorded assets.

4.6. Role Of The Procurement Division

- The responsibilities of the Procurement Division are as follows:

- Ensure that correct procedures are followed in asset acquisitions as per the Naledi Local Municipality Supply Chain Management Policy
- The Specification Committee, Evaluation Committee and Adjudication Committee must comply with and be constituted in accordance with the Supply Chain Management Policy.

5. FORMAT OF THE FIXED ASSET REGISTER

The fixed asset register must be maintained in the format as set out below, which complies with the requirements of generally accepted accounting standards. This will also ensure that proper reconciliations may be performed.

The register will reflect at least the following information:

5.1. Identification of assets

- a) Asset Class and sub-class
- b) Fixed asset unique number and/or serial number, title deed or stand number.
- c) Unique description of the asset
- d) Physical location of asset

5.2. Acquisitions

- a) Purchase date
- b) Purchase cost
- c) Supplier/contractor
- d) Reference (invoice/contract/payment/order number)
- e) Immovable assets (Capital under construction) – expenditure incurred must be included in aggregate

5.3. Disposals

- a) Disposal date and condition of asset at disposal
- b) Amount received for disposal of fixed asset and resultant profit or loss on the disposal

5.4. Accounting

- a) Historical Cost
- b) Method of financing
- c) Useful life (original) and date of assessment
- d) Remaining useful life (assessed and date of assessment)
- e) Residual value (original, assessed and date of assessment)
- f) Depreciation method
- g) Depreciation charge for each completed year of use
- h) Accumulated depreciation of each completed year of use
- i) Revaluation (amount, date, method, by whom)
- j) Impairment expense for the year and the date thereof
- k) Accumulated impairment for each class of assets
- l) Net asset value/carrying value for each completed year of use
- m) Details of any write-down or write-up in carrying value

- n) Componentisation in terms of GRAP 17.54 to 17.57. The municipality must account separately for components of an asset with a different estimated useful life to the asset it forms part of.
- o) Funding Source of the asset

5.5. Accountability

- a) Department person responsible

5.6. Performance Criteria

- a) Physical condition of the asset (date, rating, person doing assessment, file no – for details). The condition of the asset are divided in the following assessment levels:

Assessment level	Percentage
Very Good	80%
Good	70%
Fair	50%
Poor	20%
Very Poor	10%

6. CLASSIFICATION OF ASSETS

In compliance with the requirements of generally recognised accounting practice, the Chief Financial Officer shall ensure that all assets are classified into the following categories:

6.1. Property, Plant and Equipment (Including Infrastructure assets)

- 6.1.1. In terms of generally recognised accounting practice property, plant and equipment is defined as tangible assets that:
 - a) Are held for use in the production or supply of goods or services,
 - b) for rental to others, or for administrative purposes, and are expected to be used for a period more than one financial year

- 6.1.2. The different classifications for property, plant and equipment are as follows:

- a) Land
- b) Buildings
- c) Other Assets
- d) Emergency equipment
- e) Office equipment
- f) Furniture and fittings
- g) Bins and containers
- h) Motor vehicles
- i) Aircraft
- j) Watercraft
- k) Plant and equipment
- l) Infrastructure Assets – are defined as assets that usually display some or all of the following characteristics:
§ They are part of a system or network,

- § they are specialised in nature and do not have alternative uses,
- § they are immovable, and
- § they may be subject to constraints on disposal
- § Examples include road networks, sewerage systems, water and power supply systems
- m) Community Assets - Any asset that contributes to the community's well being.
Examples are parks, libraries and cemeteries

6.2. Biological Assets

These assets comprise of living animals or plants. The agricultural produce is the harvested product of the municipality's biological assets.

6.3. Heritage assets

Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price,
- legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale,
- They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and
- It may be difficult to estimate.

6.4. Investment properties

In terms of generally recognised accounting practice investment property is defined as property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for
- b) administrative purposes; or
- c) Sale in the ordinary course of operations.

Examples are office parks, shopping centres and underdeveloped land acquired for the purpose of resale in future years.

6.5. Intangible Asset

An intangible asset is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose, but must be controlled by the municipality and expected to provide future economic benefit to the municipality or to be used for service delivery.

6.6. Inventories

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for

sale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge.

Inventories in the public sector may include:

- Ammunition,
- Consumable stores,
- Maintenance materials,
- Spare parts for plant and equipment other than those dealt with under the Standard of GRAP on Property, Plant and Equipment
- Strategic stockpiles (for example, energy reserves),
- Postal service supplies held for sale (for example, stamps),
- Work in progress, including:
- Educational/training services, and
- Client services (for example, auditing services) where those services are sold at arm's length prices, and
- Land/property held for sale.

7. ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT

7.1. Recognition Criteria

- a) The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
 - it's probable that future economic benefits or service potential associated with the item will flow to the entity, and
 - The cost or fair value of the item can be measured reliably.

7.2. Measurement at recognition

- a) Property, plant and equipment that qualify for recognition, as an asset shall be measured at its cost. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the allowed alternative treatment in the Standard of GRAP on Borrowing Costs. The cost of an item of property, plant and equipment comprise of the following:
 - Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples are:
 - costs of employee benefits (as defined in the Standard of Generally Recognised Accounting Practice on Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment,

- costs of site preparation,
 - initial delivery and handling costs,
 - installation and assembly costs,
 - costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment), and
 - Professional fees.
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period
- b) Where an asset is acquired at no cost (e.g. donations), or for nominal cost, it shall be measured at its fair value on date of acquisition. Please note the fair value measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost does not constitute a revaluation.
- The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident
- c) Infrastructure work in progress must be included in the asset register and stated at the aggregate of related expenditure incurred to date. Infrastructure assets are capitalised at the cost incurred to establish the asset on the date when the asset is available for use.
- d) Examples of costs that are not the costs of an item of property, plant and equipment are:
- costs of opening a new facility,
 - costs of introducing a new product or service (including costs of advertising and promotional activities),
 - costs of conducting business in a new location or with a new class of customers (including costs of staff training), and
 - Administration and other general overhead costs.
- e) Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item is not included in the carrying amount of that item.
- f) The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see the Standard of GRAP on Inventories). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in self-constructing an asset is not included in the cost of the asset. The Standard of GRAP on Borrowing Costs establishes criteria for the recognition of

interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

7.3. Measurement after initial recognition

- a) An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

- Cost model

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

- Revaluation model

- After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
 - If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
 - If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
 - If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

- b) Depreciation

- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
 - The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset
 - Depreciable amount and depreciation period
 - The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
 - The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in

- accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
- Residual Value - For Property, plant and equipment the useful life of the assets (the period the asset is used or available for use by the entity) is shorter than the economic life of an asset (the period the asset is used or available for use by all users or owners of the asset) and therefore does not have a useful life. The municipality plans to use all assets (except for motor vehicles) for its entire economic life and therefore the residual value of the PPE is negligible and therefore assessed at zero. Motor vehicles: The residual values of vehicles are calculated as the scrap metal price multiplied with the Gross Vehicle Mass (GVM) of the vehicle.
 - The Useful life determined by the CFO is set out in the table attached in Annexure A

- Depreciation method

- The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity.
- The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

7.4. Profit and Loss on Disposal

Profit and Losses on disposal of items of property, plant and equipment are calculated as follows and are disclosed in the financial statements:

Proceeds: Sales Values or proceeds received from insurance

Less: Carrying Value – Cost or revaluation amount, less accumulated depreciation up to date of sale

Equals: Profit – If proceeds greater than carrying value

Or Equals: Loss – If proceeds less than carrying value

7.5. Impairment

- a) To determine whether an item of property, plant and equipment is impaired, an entity applies the Standard of GRAP on Impairment of Assets. The Standard of GRAP on Impairment of Assets explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset and when it recognises, or reverses the recognition of, an impairment loss.
- b) Compensation for impairment

- Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

7.6. Derecognition

- The carrying amount of an item of property, plant and equipment shall be derecognised:
 - On disposal, or
 - When no future economic benefits or service potential are expected from its use or disposal.
- The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.
- The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

8. ACCOUNTING FOR INVESTMENT PROPERTIES

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for balance sheet purposes.

Investment property shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

8.1. Recognition Criteria

a) Investment property shall be recognised as an asset when, and only when:

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- The cost or fair value of the investment property can be measured reliably.

8.2. Measurement at recognition

- Investment property shall be measured initially at its cost. Transaction costs shall be included in this initial measurement. The cost of a purchased investment property comprises of:
 - its purchase price
 - And any directly attributable expenditure.
 - Examples of directly attributable expenditure are:
 - Professional fees
 - Legal services
 - Property transfer taxes
 - Other transaction costs
- Where an investment property is acquired at no cost, or for a nominal cost its cost is its fair value as at the date of acquisition.

- The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph RAP 16 Issued November 2004 Investment 12 Property .34 of the Standard of GRAP on Leases, i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies GRAP 17 on Property, Plant and Equipment and it will be accounted for as an ordinary asset. At that date, the property becomes investment property and GRAP 16 Investment Properties applies i.e. the asset is transferred from property, plant and equipment to investment property.
- The initial cost of an investment property held under a finance lease shall be recognised at the lower of the fair value of the property and the present value of the future minimum lease payments

8.3. Measurement after initial recognition

- a) An entity may choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property, and choose either the fair value model or the cost model for all investment property, regardless of the choice made.
 - Fair Value Model
 - After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases where the fair value cannot be determined.
 - When a property interest held by a lessee under an operating lease is classified, as an investment property is not elective; the fair value model shall be applied.
 - A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.
 - The fair value of investment property shall reflect market conditions at the reporting date.
 - There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative estimates of fair value (for example, based on discounted cash flow projections) is not available. In such cases, an entity shall measure that investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment. The residual value of the investment property shall be assumed to be zero. The entity shall apply the Standard of GRAP on Property, Plant and Equipment until disposal of the investment property.

- Cost model
 - After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with the Standard of GRAP on Property, Plant and Equipment's requirements for that model.

8.4. Transfers and disposals

a) Transfers

- Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
 - Commencement of owner-occupation, for a transfer from investment property to owner-occupied property,
 - Commencement of development with a view to sale, for a transfer from investment property to inventories,
 - End of owner-occupation, for a transfer from owner-occupied property to investment property,
 - Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property, or
 - End of construction or development, for a transfer from property in the course of construction or development (covered by the Standard of GRAP on Property, Plant and Equipment) to investment property.
 - For a transfer from investment property carried at fair value to owner occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Inventories shall be its fair value at the date of change in use.
- If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply the Standard of GRAP on Property, Plant and Equipment up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with the Standard of GRAP on Property, Plant and Equipment and its fair value in the same way as a revaluation in accordance with the Standard of GRAP on Property, Plant and Equipment.
- For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.
- When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.

b) Disposals

- An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently

withdrawn from use and no future economic benefits or service potential are expected from its disposal.

- Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback) in the period of the retirement or disposal.
- Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in surplus or deficit when the compensation becomes receivable.

9. ACCOUNTING FOR INVENTORIES

9.1. Recognition

- a) Inventories shall be recognised as an asset if, and only if,
 - It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
 - The cost of the inventories can be measured reliably

9.2. Measurement at recognition

- a) The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

- Costs of purchase

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition

- Costs of conversion

The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour

10. ACCOUNTING FOR BIOLOGICAL ASSETS

10.1. Recognition

An entity shall recognise a biological asset or agricultural produce when and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- the fair value or cost of the asset can be measured reliably

10.2. Measurement at recognition

- a) A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably.
- b) There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less estimated point-of-sale costs. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with the Standard of GRAP on Non-Current Assets Held for Sale and Discontinued Operations, it is presumed that fair value can be measured reliably.

10.3. Gains and Losses

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in surplus or deficit for the period in which it arises.

11. ACCOUNTING FOR HERITAGE ASSETS

11.1. Recognition and measurement

- a) If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, on recognition of the heritage asset, elect not to apply the measurement requirements of GRAP 17, provided the disclosure requirements of GRAP 17 are complied with.
- b) For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.
- c) If the cost of the heritage asset is going to be recognised, the municipality shall apply GRAP 17
- d) However, if a heritage asset is recognised in the asset register and its estimated useful life is indefinite, it must be reviewed for impairment on an annual basis.
- e) Where an asset is donated to the municipality, or an asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer.
- f) Heritage assets are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

12. COMPONENTS

- 12.1. An asset official may, with agreement of the Chief Financial Officer, treat specified major components of an item of property plant or equipment as a separate asset for the purposes of this policy.
- 12.2. These major components may be defined by its physical parameters (e.g. a reservoir roof) or its financial parameters (e.g. a road surface).
- 12.3. In agreeing to these treatments the CFO must be satisfied that these components:
 - a) Have significantly a different useful life or usage pattern to the main asset,
 - b) Align with the asset management plans,
 - c) The benefits justify the costs of separate identification,
 - d) It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
 - e) The cost of the asset to the municipality can be measured reliably,
 - f) The municipality has gained control over the asset,
 - g) The costs is above the recognition threshold, and
 - h) The asset is expected to be used during more than one financial year.
- 12.4. All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review
- 12.5. Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.
- 12.6. All other replacements, renewals of refurbishments of components will be expensed.

13. VERIFICATION OF ASSETS

The CFO shall at least once during every financial year undertake a comprehensive verification of all assets controlled or used by the municipality concerned. These assets to be verified include the assets listed on the asset register and on other relevant listings.

14. OTHER WRITE-OFFS OF ASSETS

An asset even though fully depreciated shall be written off only on the recommendation of the Chief Financial Officer and the Council approval.

Every Business Unit shall report to the Asset Management Office at a date determined by the CFO on any assets, which they wish to have written off, stating in full the reason for such recommendation. The Asset Management Office shall consolidate all such reports and shall promptly submit a recommendation to the Council on the assets to be written off.

The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, and destruction or material impairment of the asset in question.

15. INSURANCE OF ASSETS

All insurance of property, plant and equipment and investment properties shall be done in accordance with the municipality's policy and procedures on insurance of council assets.

16. DELEGATION OF POWERS

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Council and Municipal Manager as well as between the Municipal Manager and other responsible officials. All delegations in terms of this policy document should be recorded in writing.

17. IMPLEMENTATION OF THIS POLICY

This policy will be effective from the date the policy is approved per council resolution. The implementation of this policy cannot be backdated and all sections thereof will only be implemented from date of approval.

18. ANNEXURE A – TABLE OF USEFUL LIFE

PROPERTY, PLANT AND EQUIPMENT LAND	USEFUL LIFE IN YEARS	
	MIN	MAX
Developed land	N/A	
Undeveloped land	N/A	
BUILDINGS		
DWELLINGS		
Caravans	5	-
Children's homes	25	-
Foreign mission dwellings	25	-
Homes for the aged	25	-
Hostels	25	-
Military personnel dwellings	25	-
Mobile homes	5	-
Places of safety (children)	25	-
Prisons and rehabilitation facilities	25	-
Residences (presidential, embassies)	25	-
Residences (personnel) include garages and parking	25	-
Secure care centres	25	-
NON RESIDENTIAL DWELLINGS		
Airport and associated buildings (control towers, transfer halls, parking, hangars and warehousing)	25	-
Border and custom control points	25	-
Bus terminals	25	-
Bus shelters	10	-

USEFUL LIFE IN YEARS		
MIN	-	MAX
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
20	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
10	-	15
25	-	30
25	-	30

OTHER STRUCTURES (INFRASTRUCTURE ASSETS)

ELECTRICITY

Cooling towers	25	-	30
Mains	15	-	20
Meters			
Prepaid	10	-	20
Credit	20	-	25
Power stations			
Coal	50	-	60
Gas	50	-	60
Hydro	50	-	60
Nuclear	60	-	80
Supply/reticulation	15	-	25
Transformers	25	-	50
Lines			
Underground	25	-	45
Overhead	20	-	30
Cables	25	-	45
Substations			
Switchgear	20	-	30
Equipment			
Outdoor	20	-	30
GIS	15	-	30
Indoor	30	-	40
Electrical panels	3	-	5
Telemetry	7	-	15

USEFUL LIFE IN YEARS		
MIN	-	MAX

ROADS (Roads, Pavements, Bridges & Storm Water)

BRIDGES

Vehicle

Bridges - Concrete

Bridges - Steel

Bridges - Timber

Pedestrian

Bridges - Concrete

Bridges – Steel

Bridges – Timber

Railway

Bridges - Concrete

Bridges – Steel

Bridges - Timber

Reinforced retaining walls

Earth

Concrete

Expansion and construction joints

60	-	80
40	-	50
25	-	40
60	-	80
40	-	50
25	-	40
60	-	80
40	-	50
25	-	40
10	-	15
25	-	30
15	-	20
25	-	40
40	-	60
25	-	40
80	-	100
25	-	50
40	-	50
25	-	50
20	-	40
60	-	80
60	-	80

STORM WATER

Culverts

Concrete

Armco

Drains

Earthworks

Concrete lining

Stop banks

Pipes

Coastal

Structure (Retaining walls)

Piers

Storm water outfalls

25	-	40
40	-	60
25	-	40
80	-	100
25	-	50
40	-	50
25	-	50
20	-	40
60	-	80
60	-	80

ROADS

Kerb and channels

40	-	50
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30

Municipal roads - Asphalt surface

- Asphalt layer

- Concrete surface

- Concrete layer

- Gravel surface

National roads - Asphalt surface

- Asphalt layer

- Concrete surface

- Concrete layer

- Gravel surface

Provincial roads - Asphalt surface

- Asphalt layer

- Concrete surface

40	-	50
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30

- Asphalt layer

- Concrete surface

40	-	50
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30

USEFUL LIFE IN YEARS		
MIN	-	MAX
30	-	50
3	-	10
10	-	30
30	-	60
15	-	20
10	-	15
10	-	20
15	-	30
25	-	40
40	-	50
40	-	50
15	-	20
10	-	15
5	-	15
20	-	30

AIRPORTS

Airports and radio beacons	25	-	30
Aprons	25	-	30
Runways	15	-	20
Taxiways	15	-	20
Specialised equipment			
Luggage movement equipment	20	-	25
Communication equipment	10	-	15

WATER

Dams			
Structure			
- concrete	80	-	100
- earth	30	-	50
Mechanical and electrical	15	-	40
Meters	10	-	20
Standpipes	5	-	20
Metalwork (steel stairs, ladders, handrails, weirs)	10	-	30
Pump stations			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Reservoirs			
Structure	30	-	50
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Supply/reticulation	20	-	50
Underground chambers			
Valves	15	-	25
Meters	10	-	20
Transition	10	-	15

Other
 Water purification works
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Meters
 Telemetry

USEFUL LIFE IN YEARS		
MIN	-	MAX
5	-	10
30	-	55
15	-	40
15	-	40
10	-	25
10	-	15
10	-	15

SEWERAGE

Bulk pipelines (outfall sewers)
 Rising mains
 Gravity mains
 Sewerage pump stations
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Metalwork
 Sewers/reticulation
 Waste purification works
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Meters

40	-	50
40	-	50
30	-	55
15	-	40
15	-	40
10	-	25
10	-	30
30	-	60
30	-	55
15	-	40
15	-	40
10	-	25
10	-	15

SOLID WASTE DISPOSAL

Collection Vehicles
 Containers/Bins
 Transfer stations and processing facilities
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Landfill site
 Earthmoving and compaction equipment
 Landfill preparation
 Structure
 Weighbridge
 Mechanical
 Electrical
 Perimeter protection

5	-	10
10	-	15
30	-	55
15	-	40
15	-	40
10	-	25
10	-	15
NA		
30	-	55
15	-	40
15	-	40
10	-	25

RAILWAYS

Power supply units
 Railway sidings
 Railway tracks

25		30
25	-	30
15	-	20

	USEFUL LIFE IN YEARS	
	MIN	MAX
Signalling systems	15	20
Shunting yards	25	30

GAS SUPPLY SYSTEMS

Structure			
Electrical	40	-	50
Mechanical	20	-	25
Perimeter protection	20	-	25
Stations	10	-	15
Trunk receiving			
District regulating	40	-	50
Mains/pipelines	40	-	50
Meters	15	-	20
Storage facilities	15	-	20
Supply/reticulation	15	-	20
METERIES	15	-	20
	25	-	30

CEMETERIES

CAPITAL/INFRASTRUCTURE WORK IN PROGRESS

N/A

Buildings
Infrastructure
Other

OTHER MACHINERY AND EQUIPMENT

AUDIOVISUAL EQUIPMENT		
BUILDING AIR CONDITIONING SYSTEMS	5	-
CELLULAR PHONES (OVER R5 000)	10	-
CELLULAR ROUTERS	0	-
DOMESTIC EQUIPMENT (NON KITCHEN APPLIANCES)	3	-
ELectRIC WIRE AND POWER DISTRIBUTION EQUIPMENT (COMPRESSORS, GENERATORS & ALLIED EQUIPMENT)	3	-
EMERGENCY/RESCUE EQUIPMENT	5	-
ELEVATOR SYSTEMS	5	-
FARM/AGRICULTURAL EQUIPMENT	15	-
Fire Fighting equipment	5	-
GARDENING EQUIPMENT	3	-
IRRIGATION EQUIPMENT	2	-
KITCHEN APPLIANCES	10	-
Laboratory equipment - Agricultural	5	-
- Medical testing	5	-
- Roads and transport	5	-
LAUNDRY EQUIPMENT AND INDUSTRIAL SEWING MACHINES	5	-
LEARNING, TRAINING SUPPORT AND LIBRARY MATERIAL (CURRICULUM EQUIPMENT)	10	-
MACHINES FOR METALLURGY	5	-
MACHINES FOR MINING AND QUARRYING	5	-
MACHINES FOR TEXTILE PRODUCTION	5	-
MEDICAL AND ALLIED EQUIPMENT	10	-
MUSIC INSTRUMENTS	5	-
PHOTOGRAPHIC EQUIPMENT	10	-
	5	-

Pumps, plumbing, purification and sanitation equipment
 Radio equipment
 Road construction and maintenance equipment
 Saddles and other tack
 Security equipment/systems/ materials - Fixed
 - Movable
 Ship and marine equipment
 Sport and recreational equipment
 Survey equipment
 Telecommunication equipment
 Tents, flags and accessories
 Woodworking machinery and equipment
 Workshop equipment and loose tools - Fixed
 - Movable

USEFUL LIFE IN YEARS		
MIN	-	MAX
5	-	10
5	-	7
10	-	15
5	-	7
3	-	5
3	-	5
5	-	10
5	-	10
5	-	7
3	-	5
5	-	10
5	-	10
5	-	10
5	-	10
3	-	5

FURNITURE AND OFFICE EQUIPMENT

Advertising boards
 Air conditioners (individual fixed & portable)
 Cutlery and crockery
 Domestic and hostel furniture
 Linen and soft furnishings
 Office equipment (including fax machines)
 Office furniture
 Paintings, sculptures, ornaments (home and office)

3	-	5
3	-	5
5	-	10
10	-	15
5	-	10
5	-	7
5	-	7
5	-	10

COMPUTER EQUIPMENT

Computer hardware including operating systems
 Networks

3	-	5
5	-	10

TRANSPORT ASSETS

Aircraft
 Aircraft engines
 Airport transport equipment (stairs and luggage)
 Busses
 Cycles
 Emergency vehicles (Ambulances and fire engines)
 Mobile clinics
 Motor vehicles
 Railway rolling stock
 Ships
 Ships engines
 Trailers and accessories
 Trucks

10	-	15
5	-	7
10	-	15
10	-	15
4	-	7
5	-	10
10	-	15
4	-	7
10	-	15
15	-	20
5	-	7
5	-	10
5	-	7

HERITAGE ASSETS

Archives
 Areas of land of historic or specific significance (i.e. world heritage site)

N/A	
N/A	

BIOLOGICAL OR CULTIVATED ASSETS

- Dairy cattle
 - Feathered animals (for eggs and feathers)
 - Forests and plantations
 - Fruit trees
 - Game animals
 - Animals for reproduction (cattle, goats, sheep, pigs)
 - Animals for wool or milk (goats and sheep)
 - Dogs (law enforcement and security)
 - Horses (law enforcement and working)
 - Plants (for production of seeds)
 - Vines
 - Other animals

INVESTMENT PROPERTY

INTANGIBLE ASSETS

- Capitalised development costs
 - Computer software
 - Mastheads and publishing titles
 - Patents, licences, copyrights, brand names and trademarks
 - Recipes, formulae, prototypes, designs and models
 - Service and operating rights
 - Other intangibles

	-	
2	-	5
	-	
	-	
	-	
	-	
	-	

SECTION 8

ASSET MANAGEMENT POLICY



NALEDI LOCAL MUNICIPALITY

Council resolves to adopt the following proposal as the Asset Management Policy of the Naledi Local Municipality

Policy effective date:	[30 May 2012]
Approved date:	[29 May 2012]
Resolution:	[141/2012]

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1. INTRODUCTION

The purpose of the policy is to manage the assets of the municipality in an efficient and effective way with regard to the acquisition, disposal, utilisation, control, safeguarding and maintenance of assets. Furthermore the purpose is to ensure proper accounting treatment in accordance with legislative requirements.

A fixed asset shall in terms of this policy mean any asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or to use in service delivery, over a period extending beyond one financial year.

This policy is prepared in compliance with the following relevant legislative requirements:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act No 32 of 2000
- The Municipal Supply Chain Management Regulations of 2005
- Municipal Finance Management Act No 56 of 2003
- National Treasury guidelines
- Standards of Generally Recognised Accounting Practice (GRAP).

2. BACKGROUND

2.1. The objectives of an asset management policy are:

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's assets.
- To ensure staff is aware of their responsibilities in regards of assets.
- To set out the standards of physical management, recording and internal controls to ensure assets are safeguarded.
- To specify the process required before expenditure on assets occurs.

2.2. The utilization and management of municipal assets (Fixed and Movable) is the prime mechanism by which a municipality can fulfil its constitutional mandates for:

- Delivery of sustainable services,
- Social and economic development,
- Promoting safe and healthy environments and,
- Providing the basic needs to the community.

2.3. As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in the council's fixed property, machinery and equipment.

2.4. The asset management policy deals with the rules required to ensure the enforcement of appropriate safeguarding of the municipal assets.

2.5. Safeguarding in the following ways:

- Financial administration by the Chief Financial Officer, and
- Physical administration by the asset managers.

- And general safeguarding by staff in various departments of the municipality i.e. the users of the particular assets.
- 2.6. Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.

2.7. Accounting standards have been promulgated by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these new accounting standards include:

- The compilation of asset registers covering all property, plant and equipment controlled by the municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.
- The standards to which these financial records must be maintained.

3. DEFINITIONS

Accounting Standards Board means the board established in terms of section 87 of the Public Finance Management Act (PFMA). The section refers to the function of the board, which is to establish standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa. (PFMA section 1)

An active market is a market in which all the following conditions exist:

- (a) the items traded within the market are homogeneous;
- (b) willing buyers and sellers can normally be found at any time; and
- (c) Prices are available to the public. (GRAP 102.09)

Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Agricultural produce is the harvested product of the entity's biological assets.

Asset Class is the categories in which assets are divided (class/sub-class):

Asset Life-Cycle is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal.

Asset Manager is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the entity's standards, policies, procedures and relevant guidelines.

Asset Register is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements. The asset register should also facilitate proper financial reporting and is ultimately the responsibility of the Chief Financial Officer (CFO).

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1.06)

Biological asset is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in biological asset.

Capital Assets are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. (GRAP 17.10)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of Generally Recognised Accounting Practices (GRAP). (GRAP 17.10)

Depreciable Amount is the cost of an asset, or other amount substituted for cost, less its residual value. (GRAP 17.10)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. (GRAP 17.10)

Economic Life is either:

- (a) the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
- (b) The number of production or similar units expected to be obtained from the asset by one or more users. (GRAP 13.05)

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (GRAP 17.10)

Generally Recognised Accounting Practice (GRAP) means an accounting practice complying in material respects with standards issued by the Accounting Standards Board. (PFMA section 1)

A Group of biological assets is an aggregation of similar living animals or plants.

Infrastructure means assets that usually display some or all of the following characteristics:

- (a) they are part of a system or network;
- (b) they are specialised in nature and do not have alternative uses;
- (c) they are immovable; and
- (d) they may be subject to constraints on disposal.(GRAP 17.15)

Investment Property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes, or
- (b) Sale in the ordinary course of operations. (GRAP 16.05)

Maintenance/Refurbishment to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

Property, Plant and Equipment is tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) Are expected to be used during more than one reporting period. (GRAP 17.10)

Recognition is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:

- (a) It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
- (b) The item has a cost or value that can be measured reliably. (Framework for the Preparation and Presentation of Financial Statements paragraph 109 and 110)

Recoverable Amount is the higher of a cash-generating asset's or units net selling price and its value in use.

Remaining Useful Life is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.

The Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (GRAP 17.10)

Useful Life is:

The period over which an asset is expected to be available for use by an entity, or

The number of production or similar units expected to be obtained from the asset by an entity. (GRAP 17.10)

The useful life of an asset is entity specific.

4. ROLES AND RESPONSIBILITIES

4.1. Accounting officer

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

The municipal manager or his duly delegated representative is responsible to:

- Ensure in terms of section 63 of the Municipal Finance Management Act (MFMA) that:
 - The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality.
 - That the municipality's assets are valued in accordance with the standards of generally recognised accounting practice. Ensure that the municipality maintains a system of internal control of assets, including an asset register
 - The implementation of the approved Asset Management Policy
- Verify assets in possession of the Council annually, during the course of the financial year.
- Keep a complete and balanced record of all assets in possession of the Council.
- Report in writing all asset losses, where applicable, to Council

Delegations

- The AO may delegate to a member of the municipality's top management (Chief Financial Officer; senior managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:
 - Any powers or duties assigned to an AO in terms of the Act, or
 - Any powers or duties reasonably necessary to assist the AO in complying with a duty which requires the AO to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act

4.2. Chief financial officer (CFO)

- The chief financial officer shall be the custodian of the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.
- The chief financial officer should appoint an asset manager who will be responsible to manage the amendments, deletions or additions to the fixed asset register.
- The Chief financial officer should authorise the monthly reconciliation prepared by the asset management office and reviewed by the asset manager
- No amendments may be made to the fixed asset register, other than by the CFO or by an official acting under written instruction of the CFO.

4.3. Asset manager

- Under written instruction from the CFO, the asset manager is responsible for the amendments, deletions or additions made to the fixed asset register and to monitor the activities performed by the asset management office.
- Asset manager should review the monthly reconciliation prepared between the asset register and the system and submit it to the CFO for authorisation

4.4. Asset management office

- The asset management office is responsible to prepare monthly reconciliations between the asset register and the system and submit it to the asset manager for review;
- Distribute new assets to the requestor Directorate and bar-code these assets;
- The asset management office should record the details of the new asset in the capital asset register.
- Maintain and control stock of bar-code and replenish where necessary;
- When assets are disposed of or written-off, the asset management office should retire the asset from the asset register;
- Update the asset register when assets are transferred between locations;
- Calculate and update the asset register with the monthly depreciation;
- Prepare and conduct physical assets verification – at least once a year;
- Provide inventory lists for all locations and should be kept behind all doors, in case of offices and at other suitable places;
- Maintain and update the Asset Module and system
- Reconcile on a quarterly basis the reports received from the directorates of all the assets in the directorate and the conditions thereof with the capital asset register.

4.5. Each directorate (section)

- Each directorate (section) is responsible to manage and control all fixed assets in their section in line with the inventory list produced by the Asset management office;
- Any unmarked assets and changes should be communicated to the Asset Management Office;
- To report damaged, lost or asset which require maintenance to the Asset Management Office.
- Report to the Asset Management Office on a quarterly basis on all assets in the directorate (section) as well as the condition of these assets to enable them to identify unrecorded assets.

4.6. Role Of The Procurement Division

- The responsibilities of the Procurement Division are as follows:

- Ensure that correct procedures are followed in asset acquisitions as per the Naledi Local Municipality Supply Chain Management Policy
- The Specification Committee, Evaluation Committee and Adjudication Committee must comply with and be constituted in accordance with the Supply Chain Management Policy.

5. FORMAT OF THE FIXED ASSET REGISTER

The fixed asset register must be maintained in the format as set out below, which complies with the requirements of generally accepted accounting standards. This will also ensure that proper reconciliations may be performed.

The register will reflect at least the following information:

5.1. Identification of assets

- a) Asset Class and sub-class
- b) Fixed asset unique number and/or serial number, title deed or stand number.
- c) Unique description of the asset
- d) Physical location of asset

5.2. Acquisitions

- a) Purchase date
- b) Purchase cost
- c) Supplier/contractor
- d) Reference (invoice/contract/payment/order number)
- e) Immovable assets (Capital under construction) – expenditure incurred must be included in aggregate

5.3. Disposals

- a) Disposal date and condition of asset at disposal
- b) Amount received for disposal of fixed asset and resultant profit or loss on the disposal

5.4. Accounting

- a) Historical Cost
- b) Method of financing
- c) Useful life (original) and date of assessment
- d) Remaining useful life (assessed and date of assessment)
- e) Residual value (original, assessed and date of assessment)
- f) Depreciation method
- g) Depreciation charge for each completed year of use
- h) Accumulated depreciation of each completed year of use
- i) Revaluation (amount, date, method, by whom)
- j) Impairment expense for the year and the date thereof
- k) Accumulated impairment for each class of assets
- l) Net asset value/carrying value for each completed year of use
- m) Details of any write-down or write-up in carrying value

- n) Componentisation in terms of GRAP 17.54 to 17.57. The municipality must account separately for components of an asset with a different estimated useful life to the asset it forms part of.
- o) Funding Source of the asset

5.5. Accountability

- a) Department person responsible

5.6. Performance Criteria

- a) Physical condition of the asset (date, rating, person doing assessment, file no – for details). The condition of the asset are divided in the following assessment levels:

Assessment level	Percentage
Very Good	80%
Good	70%
Fair	50%
Poor	20%
Very Poor	10%

6. CLASSIFICATION OF ASSETS

In compliance with the requirements of generally recognised accounting practice, the Chief Financial Officer shall ensure that all assets are classified into the following categories:

6.1. Property, Plant and Equipment (Including Infrastructure assets)

- 6.1.1. In terms of generally recognised accounting practice property, plant and equipment is defined as tangible assets that:
 - a) Are held for use in the production or supply of goods or services,
 - b) for rental to others, or for administrative purposes, and are expected to be used for a period more than one financial year

- 6.1.2. The different classifications for property, plant and equipment are as follows:

- a) Land
- b) Buildings
- c) Other Assets
- d) Emergency equipment
- e) Office equipment
- f) Furniture and fittings
- g) Bins and containers
- h) Motor vehicles
- i) Aircraft
- j) Watercraft
- k) Plant and equipment
- l) Infrastructure Assets – are defined as assets that usually display some or all of the following characteristics:
§ They are part of a system or network,

- § they are specialised in nature and do not have alternative uses,
- § they are immovable, and
- § they may be subject to constraints on disposal
- § Examples include road networks, sewerage systems, water and power supply systems
- m) Community Assets - Any asset that contributes to the community's well being.
Examples are parks, libraries and cemeteries

6.2. Biological Assets

These assets comprise of living animals or plants. The agricultural produce is the harvested product of the municipality's biological assets.

6.3. Heritage assets

Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price,
- legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale,
- They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and
- It may be difficult to estimate.

6.4. Investment properties

In terms of generally recognised accounting practice investment property is defined as property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for
- b) administrative purposes; or
- c) Sale in the ordinary course of operations.

Examples are office parks, shopping centres and underdeveloped land acquired for the purpose of resale in future years.

6.5. Intangible Asset

An intangible asset is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose, but must be controlled by the municipality and expected to provide future economic benefit to the municipality or to be used for service delivery.

6.6. Inventories

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for

sale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge.

Inventories in the public sector may include:

- Ammunition,
- Consumable stores,
- Maintenance materials,
- Spare parts for plant and equipment other than those dealt with under the Standard of GRAP on Property, Plant and Equipment
- Strategic stockpiles (for example, energy reserves),
- Postal service supplies held for sale (for example, stamps),
- Work in progress, including:
- Educational/training services, and
- Client services (for example, auditing services) where those services are sold at arm's length prices, and
- Land/property held for sale.

7. ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT

7.1. Recognition Criteria

- a) The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
 - it's probable that future economic benefits or service potential associated with the item will flow to the entity, and
 - The cost or fair value of the item can be measured reliably.

7.2. Measurement at recognition

- a) Property, plant and equipment that qualify for recognition, as an asset shall be measured at its cost. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the allowed alternative treatment in the Standard of GRAP on Borrowing Costs. The cost of an item of property, plant and equipment comprise of the following:
 - Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples are:
 - costs of employee benefits (as defined in the Standard of Generally Recognised Accounting Practice on Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment,

- costs of site preparation,
 - initial delivery and handling costs,
 - installation and assembly costs,
 - costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment), and
 - Professional fees.
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period
- b) Where an asset is acquired at no cost (e.g. donations), or for nominal cost, it shall be measured at its fair value on date of acquisition. Please note the fair value measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost does not constitute a revaluation.
- The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident
- c) Infrastructure work in progress must be included in the asset register and stated at the aggregate of related expenditure incurred to date. Infrastructure assets are capitalised at the cost incurred to establish the asset on the date when the asset is available for use.
- d) Examples of costs that are not the costs of an item of property, plant and equipment are:
- costs of opening a new facility,
 - costs of introducing a new product or service (including costs of advertising and promotional activities),
 - costs of conducting business in a new location or with a new class of customers (including costs of staff training), and
 - Administration and other general overhead costs.
- e) Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item is not included in the carrying amount of that item.
- f) The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see the Standard of GRAP on Inventories). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in self-constructing an asset is not included in the cost of the asset. The Standard of GRAP on Borrowing Costs establishes criteria for the recognition of

interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

7.3. Measurement after initial recognition

- a) An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

- Cost model

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

- Revaluation model

- After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
 - If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
 - If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
 - If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

- b) Depreciation

- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
 - The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset
 - Depreciable amount and depreciation period
 - The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
 - The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in

- accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
- Residual Value - For Property, plant and equipment the useful life of the assets (the period the asset is used or available for use by the entity) is shorter than the economic life of an asset (the period the asset is used or available for use by all users or owners of the asset) and therefore does not have a useful life. The municipality plans to use all assets (except for motor vehicles) for its entire economic life and therefore the residual value of the PPE is negligible and therefore assessed at zero. Motor vehicles: The residual values of vehicles are calculated as the scrap metal price multiplied with the Gross Vehicle Mass (GVM) of the vehicle.
 - The Useful life determined by the CFO is set out in the table attached in Annexure A

- Depreciation method

- The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity.
- The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

7.4. Profit and Loss on Disposal

Profit and Losses on disposal of items of property, plant and equipment are calculated as follows and are disclosed in the financial statements:

Proceeds: Sales Values or proceeds received from insurance

Less: Carrying Value – Cost or revaluation amount, less accumulated depreciation up to date of sale

Equals: Profit – If proceeds greater than carrying value

Or Equals: Loss – If proceeds less than carrying value

7.5. Impairment

- a) To determine whether an item of property, plant and equipment is impaired, an entity applies the Standard of GRAP on Impairment of Assets. The Standard of GRAP on Impairment of Assets explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset and when it recognises, or reverses the recognition of, an impairment loss.
- b) Compensation for impairment

- Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

7.6. Derecognition

- The carrying amount of an item of property, plant and equipment shall be derecognised:
 - On disposal, or
 - When no future economic benefits or service potential are expected from its use or disposal.
- The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.
- The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

8. ACCOUNTING FOR INVESTMENT PROPERTIES

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for balance sheet purposes.

Investment property shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

8.1. Recognition Criteria

a) Investment property shall be recognised as an asset when, and only when:

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- The cost or fair value of the investment property can be measured reliably.

8.2. Measurement at recognition

- Investment property shall be measured initially at its cost. Transaction costs shall be included in this initial measurement. The cost of a purchased investment property comprises of:
 - its purchase price
 - And any directly attributable expenditure.
 - Examples of directly attributable expenditure are:
 - Professional fees
 - Legal services
 - Property transfer taxes
 - Other transaction costs
- Where an investment property is acquired at no cost, or for a nominal cost its cost is its fair value as at the date of acquisition.

- The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph RAP 16 Issued November 2004 Investment 12 Property .34 of the Standard of GRAP on Leases, i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies GRAP 17 on Property, Plant and Equipment and it will be accounted for as an ordinary asset. At that date, the property becomes investment property and GRAP 16 Investment Properties applies i.e. the asset is transferred from property, plant and equipment to investment property.
- The initial cost of an investment property held under a finance lease shall be recognised at the lower of the fair value of the property and the present value of the future minimum lease payments

8.3. Measurement after initial recognition

- a) An entity may choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property, and choose either the fair value model or the cost model for all investment property, regardless of the choice made.
 - Fair Value Model
 - After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases where the fair value cannot be determined.
 - When a property interest held by a lessee under an operating lease is classified, as an investment property is not elective; the fair value model shall be applied.
 - A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.
 - The fair value of investment property shall reflect market conditions at the reporting date.
 - There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative estimates of fair value (for example, based on discounted cash flow projections) is not available. In such cases, an entity shall measure that investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment. The residual value of the investment property shall be assumed to be zero. The entity shall apply the Standard of GRAP on Property, Plant and Equipment until disposal of the investment property.

- Cost model
 - After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with the Standard of GRAP on Property, Plant and Equipment's requirements for that model.

8.4. Transfers and disposals

a) Transfers

- Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
 - Commencement of owner-occupation, for a transfer from investment property to owner-occupied property,
 - Commencement of development with a view to sale, for a transfer from investment property to inventories,
 - End of owner-occupation, for a transfer from owner-occupied property to investment property,
 - Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property, or
 - End of construction or development, for a transfer from property in the course of construction or development (covered by the Standard of GRAP on Property, Plant and Equipment) to investment property.
 - For a transfer from investment property carried at fair value to owner occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Inventories shall be its fair value at the date of change in use.
- If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply the Standard of GRAP on Property, Plant and Equipment up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with the Standard of GRAP on Property, Plant and Equipment and its fair value in the same way as a revaluation in accordance with the Standard of GRAP on Property, Plant and Equipment.
- For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.
- When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.

b) Disposals

- An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently

withdrawn from use and no future economic benefits or service potential are expected from its disposal.

- Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback) in the period of the retirement or disposal.
- Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in surplus or deficit when the compensation becomes receivable.

9. ACCOUNTING FOR INVENTORIES

9.1. Recognition

- a) Inventories shall be recognised as an asset if, and only if,
 - It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
 - The cost of the inventories can be measured reliably

9.2. Measurement at recognition

- a) The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

- Costs of purchase

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition

- Costs of conversion

The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour

10. ACCOUNTING FOR BIOLOGICAL ASSETS

10.1. Recognition

An entity shall recognise a biological asset or agricultural produce when and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- the fair value or cost of the asset can be measured reliably

10.2. Measurement at recognition

- a) A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably.
- b) There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less estimated point-of-sale costs. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with the Standard of GRAP on Non-Current Assets Held for Sale and Discontinued Operations, it is presumed that fair value can be measured reliably.

10.3. Gains and Losses

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in surplus or deficit for the period in which it arises.

11. ACCOUNTING FOR HERITAGE ASSETS

11.1. Recognition and measurement

- a) If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, on recognition of the heritage asset, elect not to apply the measurement requirements of GRAP 17, provided the disclosure requirements of GRAP 17 are complied with.
- b) For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.
- c) If the cost of the heritage asset is going to be recognised, the municipality shall apply GRAP 17
- d) However, if a heritage asset is recognised in the asset register and its estimated useful life is indefinite, it must be reviewed for impairment on an annual basis.
- e) Where an asset is donated to the municipality, or an asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer.
- f) Heritage assets are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

12. COMPONENTS

- 12.1. An asset official may, with agreement of the Chief Financial Officer, treat specified major components of an item of property plant or equipment as a separate asset for the purposes of this policy.
- 12.2. These major components may be defined by its physical parameters (e.g. a reservoir roof) or its financial parameters (e.g. a road surface).
- 12.3. In agreeing to these treatments the CFO must be satisfied that these components:
 - a) Have significantly a different useful life or usage pattern to the main asset,
 - b) Align with the asset management plans,
 - c) The benefits justify the costs of separate identification,
 - d) It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
 - e) The cost of the asset to the municipality can be measured reliably,
 - f) The municipality has gained control over the asset,
 - g) The costs is above the recognition threshold, and
 - h) The asset is expected to be used during more than one financial year.
- 12.4. All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review
- 12.5. Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.
- 12.6. All other replacements, renewals of refurbishments of components will be expensed.

13. VERIFICATION OF ASSETS

The CFO shall at least once during every financial year undertake a comprehensive verification of all assets controlled or used by the municipality concerned. These assets to be verified include the assets listed on the asset register and on other relevant listings.

14. OTHER WRITE-OFFS OF ASSETS

An asset even though fully depreciated shall be written off only on the recommendation of the Chief Financial Officer and the Council approval.

Every Business Unit shall report to the Asset Management Office at a date determined by the CFO on any assets, which they wish to have written off, stating in full the reason for such recommendation. The Asset Management Office shall consolidate all such reports and shall promptly submit a recommendation to the Council on the assets to be written off.

The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, and destruction or material impairment of the asset in question.

15. INSURANCE OF ASSETS

All insurance of property, plant and equipment and investment properties shall be done in accordance with the municipality's policy and procedures on insurance of council assets.

16. DELEGATION OF POWERS

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Council and Municipal Manager as well as between the Municipal Manager and other responsible officials. All delegations in terms of this policy document should be recorded in writing.

17. IMPLEMENTATION OF THIS POLICY

This policy will be effective from the date the policy is approved per council resolution. The implementation of this policy cannot be backdated and all sections thereof will only be implemented from date of approval.

18. ANNEXURE A – TABLE OF USEFUL LIFE

PROPERTY, PLANT AND EQUIPMENT LAND	USEFUL LIFE IN YEARS	
	MIN	MAX
Developed land	N/A	
Undeveloped land	N/A	
BUILDINGS		
DWELLINGS		
Caravans	5	-
Children's homes	25	-
Foreign mission dwellings	25	-
Homes for the aged	25	-
Hostels	25	-
Military personnel dwellings	25	-
Mobile homes	5	-
Places of safety (children)	25	-
Prisons and rehabilitation facilities	25	-
Residences (presidential, embassies)	25	-
Residences (personnel) include garages and parking	25	-
Secure care centres	25	-
NON RESIDENTIAL DWELLINGS		
Airport and associated buildings (control towers, transfer halls, parking, hangars and warehousing)	25	-
Border and custom control points	25	-
Bus terminals	25	-
Bus shelters	10	-

USEFUL LIFE IN YEARS		
MIN	-	MAX
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
20	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
25	-	30
10	-	15
25	-	30
25	-	30

OTHER STRUCTURES (INFRASTRUCTURE ASSETS)

ELECTRICITY

Cooling towers	25	-	30
Mains	15	-	20
Meters			
Prepaid	10	-	20
Credit	20	-	25
Power stations			
Coal	50	-	60
Gas	50	-	60
Hydro	50	-	60
Nuclear	60	-	80
Supply/reticulation	15	-	25
Transformers	25	-	50
Lines			
Underground	25	-	45
Overhead	20	-	30
Cables	25	-	45
Substations			
Switchgear	20	-	30
Equipment			
Outdoor	20	-	30
GIS	15	-	30
Indoor	30	-	40
Electrical panels	3	-	5
Telemetry	7	-	15

USEFUL LIFE IN YEARS		
MIN	-	MAX

ROADS (Roads, Pavements, Bridges & Storm Water)

BRIDGES

Vehicle

Bridges - Concrete

Bridges - Steel

Bridges - Timber

Pedestrian

Bridges - Concrete

Bridges – Steel

Bridges – Timber

Railway

Bridges - Concrete

Bridges – Steel

Bridges - Timber

Reinforced retaining walls

Earth

Concrete

Expansion and construction joints

60	-	80
40	-	50
25	-	40
60	-	80
40	-	50
25	-	40
60	-	80
40	-	50
25	-	40
10	-	15
25	-	30
15	-	20
25	-	40
40	-	60
25	-	40
80	-	100
25	-	50
40	-	50
25	-	50
20	-	40
60	-	80
60	-	80

STORM WATER

Culverts

Concrete

Armco

Drains

Earthworks

Concrete lining

Stop banks

Pipes

Coastal

Structure (Retaining walls)

Piers

Storm water outfalls

25	-	40
40	-	60
25	-	40
80	-	100
25	-	50
40	-	50
25	-	50
20	-	40
60	-	80
60	-	80

ROADS

Kerb and channels

40	-	50

Municipal roads - Asphalt surface

10	-	20

- Asphalt layer

30	-	50

- Concrete surface

10	-	30

- Concrete layer

30	-	50

- Gravel surface

3	-	10

National roads - Asphalt surface

10	-	20

- Asphalt layer

30	-	50

- Concrete surface

10	-	30

- Concrete layer

30	-	50

- Gravel surface

3	-	10

Provincial roads - Asphalt surface

10	-	20

- Asphalt layer

30	-	50

- Concrete surface

10	-	30

40	-	50
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30
30	-	50
3	-	10
10	-	20
30	-	50
10	-	30

USEFUL LIFE IN YEARS		
MIN	-	MAX
30	-	50
3	-	10
10	-	30
30	-	60
15	-	20
10	-	15
10	-	20
15	-	30
25	-	40
40	-	50
40	-	50
15	-	20
10	-	15
5	-	15
20	-	30

AIRPORTS

Airports and radio beacons	25	-	30
Aprons	25	-	30
Runways	15	-	20
Taxiways	15	-	20
Specialised equipment			
Luggage movement equipment	20	-	25
Communication equipment	10	-	15

WATER

Dams			
Structure			
- concrete	80	-	100
- earth	30	-	50
Mechanical and electrical	15	-	40
Meters	10	-	20
Standpipes	5	-	20
Metalwork (steel stairs, ladders, handrails, weirs)	10	-	30
Pump stations			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Reservoirs			
Structure	30	-	50
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Supply/reticulation	20	-	50
Underground chambers			
Valves	15	-	25
Meters	10	-	20
Transition	10	-	15

Other
 Water purification works
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Meters
 Telemetry

USEFUL LIFE IN YEARS		
MIN	-	MAX
5	-	10
30	-	55
15	-	40
15	-	40
10	-	25
10	-	15
10	-	15

SEWERAGE

Bulk pipelines (outfall sewers)
 Rising mains
 Gravity mains
 Sewerage pump stations
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Metalwork
 Sewers/reticulation
 Waste purification works
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Meters

40	-	50
40	-	50
30	-	55
15	-	40
15	-	40
10	-	25
10	-	30
30	-	60
30	-	55
15	-	40
15	-	40
10	-	25
10	-	15

SOLID WASTE DISPOSAL

Collection Vehicles
 Containers/Bins
 Transfer stations and processing facilities
 Structure
 Electrical
 Mechanical
 Perimeter protection
 Landfill site
 Earthmoving and compaction equipment
 Landfill preparation
 Structure
 Weighbridge
 Mechanical
 Electrical
 Perimeter protection

5	-	10
10	-	15
30	-	55
15	-	40
15	-	40
10	-	25
10	-	15
NA		
30	-	55
15	-	40
15	-	40
10	-	25

RAILWAYS

Power supply units
 Railway sidings
 Railway tracks

25		30
25	-	30
15	-	20

	USEFUL LIFE IN YEARS	
	MIN	MAX
Signalling systems	15	20
Shunting yards	25	30

GAS SUPPLY SYSTEMS

Structure			
Electrical	40	-	50
Mechanical	20	-	25
Perimeter protection	20	-	25
Stations	10	-	15
Trunk receiving			
District regulating	40	-	50
Mains/pipelines	40	-	50
Meters	15	-	20
Storage facilities	15	-	20
Supply/reticulation	15	-	20
METERIES	15	-	20
	25	-	30

CEMETERIES

CAPITAL/INFRASTRUCTURE WORK IN PROGRESS

N/A

Buildings
Infrastructure
Other

OTHER MACHINERY AND EQUIPMENT

AUDIOVISUAL EQUIPMENT		
BUILDING AIR CONDITIONING SYSTEMS	5	-
CELLULAR PHONES (OVER R5 000)	10	-
CELLULAR ROUTERS	0	-
DOMESTIC EQUIPMENT (NON KITCHEN APPLIANCES)	3	-
ELectRIC WIRE AND POWER DISTRIBUTION EQUIPMENT (COMPRESSORS, GENERATORS & ALLIED EQUIPMENT)	3	-
EMERGENCY/RESCUE EQUIPMENT	5	-
ELEVATOR SYSTEMS	5	-
FARM/AGRICULTURAL EQUIPMENT	15	-
Fire Fighting equipment	5	-
GARDENING EQUIPMENT	3	-
IRRIGATION EQUIPMENT	2	-
KITCHEN APPLIANCES	10	-
Laboratory equipment - Agricultural	5	-
- Medical testing	5	-
- Roads and transport	5	-
LAUNDRY EQUIPMENT AND INDUSTRIAL SEWING MACHINES	5	-
LEARNING, TRAINING SUPPORT AND LIBRARY MATERIAL (CURRICULUM EQUIPMENT)	10	-
MACHINES FOR METALLURGY	5	-
MACHINES FOR MINING AND QUARRYING	5	-
MACHINES FOR TEXTILE PRODUCTION	5	-
MEDICAL AND ALLIED EQUIPMENT	10	-
MUSIC INSTRUMENTS	5	-
PHOTOGRAPHIC EQUIPMENT	10	-
	5	-

Pumps, plumbing, purification and sanitation equipment
 Radio equipment
 Road construction and maintenance equipment
 Saddles and other tack
 Security equipment/systems/ materials - Fixed
 - Movable
 Ship and marine equipment
 Sport and recreational equipment
 Survey equipment
 Telecommunication equipment
 Tents, flags and accessories
 Woodworking machinery and equipment
 Workshop equipment and loose tools - Fixed
 - Movable

USEFUL LIFE IN YEARS		
MIN	-	MAX
5	-	10
5	-	7
10	-	15
5	-	7
3	-	5
3	-	5
5	-	10
5	-	10
5	-	7
3	-	5
5	-	10
5	-	10
5	-	10
5	-	10
3	-	5

FURNITURE AND OFFICE EQUIPMENT

Advertising boards
 Air conditioners (individual fixed & portable)
 Cutlery and crockery
 Domestic and hostel furniture
 Linen and soft furnishings
 Office equipment (including fax machines)
 Office furniture
 Paintings, sculptures, ornaments (home and office)

3	-	5
3	-	5
5	-	10
10	-	15
5	-	10
5	-	7
5	-	7
5	-	10

COMPUTER EQUIPMENT

Computer hardware including operating systems
 Networks

3	-	5
5	-	10

TRANSPORT ASSETS

Aircraft
 Aircraft engines
 Airport transport equipment (stairs and luggage)
 Busses
 Cycles
 Emergency vehicles (Ambulances and fire engines)
 Mobile clinics
 Motor vehicles
 Railway rolling stock
 Ships
 Ships engines
 Trailers and accessories
 Trucks

10	-	15
5	-	7
10	-	15
10	-	15
4	-	7
5	-	10
10	-	15
4	-	7
10	-	15
15	-	20
5	-	7
5	-	10
5	-	7

HERITAGE ASSETS

Archives
 Areas of land of historic or specific significance (i.e. world heritage site)

N/A	
N/A	

BIOLOGICAL OR CULTIVATED ASSETS

- Dairy cattle
 - Feathered animals (for eggs and feathers)
 - Forests and plantations
 - Fruit trees
 - Game animals
 - Animals for reproduction (cattle, goats, sheep, pigs)
 - Animals for wool or milk (goats and sheep)
 - Dogs (law enforcement and security)
 - Horses (law enforcement and working)
 - Plants (for production of seeds)
 - Vines
 - Other animals

INVESTMENT PROPERTY

INTANGIBLE ASSETS

- Capitalised development costs
 - Computer software
 - Mastheads and publishing titles
 - Patents, licences, copyrights, brand names and trademarks
 - Recipes, formulae, prototypes, designs and models
 - Service and operating rights
 - Other intangibles

	-	
2	-	5
	-	
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	-	
	-	
	-	